BARKLEY LAKE WATER DISTRICT

FINANCIAL AUDIT

December 31, 2016

CALHOUN & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

BARKLEY LAKE WATER DISTRICT
PO BOX 308
CADIZ, KY 42211

FINANCIAL AUDIT

DECEMBER 31, 2016

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
- Statement of Net Position - Proprietary Fund	9
- Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	10
- Statement of Cash Flows	11
Notes to the Financial Statements	13
Required Supplementary Information	
- Schedule of Proportionate Share of the Net Pension Liability	28
- Schedule of Required Contributions	29
- Schedule of Changes in Benefits and Assumptions	30
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	32

CALHOUN & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
4537 Fort Campbell Boulevard Hopkinsville, Kentucky 42240
Telephone 270.886.0880 Fax 270.886.3716 www.calhouncpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Barkley Lake Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Barkley Lake Water District as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 8, as well as the Schedule of Proportionate Share of Net Pension Liability, Schedule of Required Contributions and Schedule of Changes in Benefits and Assumptions on pages 28 through 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2017, on our consideration of Barkley Lake Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Barkley Lake Water District's internal control over financial reporting and compliance.

Calhoun & Company

Hopkinsville, Kentucky
May 11, 2017

BARKLEY LAKE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

The Management's Discussion and Analysis of the Barkley Lake Water District (District) provides a narrative overview and analysis of the District's financial statements and the activities of the District for the year ended December 31, 2016. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the accompanying financial statements.

Financial Highlights

- The District's 2016 operating revenues of $2,489,299 decreased 0.82% from 2015, while 2016 operating expenses of $2,652,409 increased 8.60% from 2015.
- The District's net position, a measure of current financial resources, decreased by $342,576, resulting in a December 31, 2016 balance of $7,595,289.
- The District's unrestricted cash available for operating expenses was $1,897,334 at December 31, 2016.
- The District's investment in utility plant, net of depreciation, including the construction in progress, was $15,511,946 at December 31, 2016.

Overview of Financial Statements

Barkley Lake Water District is a self-reporting proprietary fund. The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in fund net position, statement of cash flows and notes to the financial statements. The District does not include financial information of any other entity, nor is it included in the financial information of any other entity.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Statement of Net Position

The statement of net position presents the financial position of the District. It represents information on the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Fund Net Position

The statement of revenues, expenses and changes in fund net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when they are earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Statement of Cash Flows

The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the fiscal year.

Notes to the Financial Statements
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Overview of the District's Financial Position and Results of Operations

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by $7,595,289 at December 31, 2016.

The largest portion of the District's net position reflects its net investment in capital assets of $4,612,392 (e.g. water tanks, land and improvements, buildings and improvements, equipment and distribution systems) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be liquidated to service these liabilities.

The District's restricted net position totaled $1,938,404 at December 31, 2016 and consisted of cash restricted for debt service and construction.

Unrestricted net position totaled $1,044,493 at December 31, 2016.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets. The District's overall financial position and operations for the year ended December 31, 2016 as compared to December 31, 2015 are as follows:

Net Position

	2016	2015
Assets		
Current Assets	$ 3,984,594	$ 3,745,070
Capital Assets	15,511,946	15,939,842
Noncurrent Assets	575,036	775,036
Total Assets	20,071,576	20,459,948
Deferred Outflows of Resources		
Deferred Loss on Refunding Bonds	14,395	16,435
Deferred Outflow of Resources Related to Pension	346,137	254,536
Total Deferred Outflows of Resources	360,532	270,971
Liabilities		
Current Liabilities	451,963	399,559
Long-term Liabilities	12,384,856	12,393,495
Total Liabilities	12,836,819	12,793,054
Net Position		
Net Investment in Capital Assets	4,612,392	4,787,610
Restricted - Expendable	1,938,404	2,289,567
Unrestricted	1,044,493	860,688
Total Net Position	$ 7,595,289	$ 7,937,865

Change in Net Position

	2016	2015
Revenues		
Operating Revenues	$ 2,489,299	$ 2,509,924
Non-Operating Revenues	30,047	353,985
Capital Contributions	180,967	496,811
Total Revenues	2,700,313	3,360,720
Expenses		
Operating Expenses	2,652,409	2,442,342
Non-Operating Expenses	390,480	394,938
Total Expenses	3,042,889	2,837,280
Change in Net Position	(342,576)	523,440
Net Position, Beginning of Year	7,937,865	8,147,783
Net Position, Prior Period Adjustment	-	(733,358)
Net Position, Beginning of Year as Restated	7,937,865	7,414,425
Net Position, Ending of Year	$ 7,595,289	$ 7,937,865

Capital Assets

The District's investment in capital assets, net of depreciation as of December 31, 2016 was as follows:

	Balance January 1, 2016	Additions (Eliminations)	Balance December 31, 2016
Nondepreciable Assets			
Land	$ 117,522	$ -	$ 117,522
Construction in Progress	523,498	(139,148)	384,350
Total Nondepreciable Assets	641,020	(139,148)	501,872
Depreciable Assets			
Buildings	10,478,823	3,754	10,482,577
Pumping Equipment	21,434	-	21,434
Transmission Lines	12,105,075	250,384	12,355,459
Meters	1,714,059	56,653	1,770,712
Plant Equipment	532,486	-	532,486
Office Equipment	115,148	5,019	120,167
Vehicles	276,543	14,084	290,627
Total Depreciable Assets	25,243,568	329,894	25,573,462
Accumulated Depreciation	(9,944,746)	(618,642)	(10,563,388)
Net Depreciable Assets	15,298,822	(288,748)	15,010,074
Net Capital Assets	$ 15,939,842	$ (427,896)	$ 15,511,946

During the year ended December 31, 2016, the District continued work on the Highway 68/80 relocation project and an additional $111,236 was charged to construction in progress. The portion of Phase I of the Highway 68/80 relocation project was completed during 2016. Total construction in progress at year end was $384,350. Depreciation expense for the year was $660,383.

Long-term Debt

Debt activity for the year ended December 31, 2016 was as follows:

	Balance January 1, 2016	Additions (Payments)	Balance December 31, 2016	Current Maturities
Bond Series 2005	$ 1,049,000	$ (18,500)	$ 1,030,500	$ 19,500
Bond Series 2008C	2,385,000	(110,000)	2,275,000	115,000
Bond Series 2010A	3,909,500	(49,000)	3,860,500	51,000
Bond Series 2010B	1,737,485	(26,500)	1,710,985	27,500
Bond Series 2012E	1,250,000	(50,000)	1,200,000	55,000
Bond Series 2014	825,000	-	825,000	12,500
Premium on Bond 2012E	12,682	(718)	11,964	718
	11,168,667	(254,718)	10,913,949	281,218
Compensated Absences	17,735	1,695	19,430	-
Customer Deposits	305,921	5,568	311,489	-
Net Pension Liability	1,155,890	265,316	1,421,206	-
	$ 12,648,213	$ 17,861	$ 12,666,074	$ 281,218

Interest expense of $390,480 was paid during the year ended December 31, 2016.

Request for Information

This financial report is designed to provide a general overview of the Barkley Lake Water District's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Scott Bridges, Chairman, Barkley Lake Water District, P.O. Box 308, Cadiz, Kentucky 42211.

BARKLEY LAKE WATER DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2016

Assets	
Current Assets	
Cash and Cash Equivalents	$ 1,897,334
Accounts Receivable	361,695
Other Receivables	137,545
Inventory	203,231
Prepaid Expenses	20,896
Restricted Cash	1,363,893
Total Current Assets	3,984,594
Noncurrent Assets	
Restricted Cash	574,511
Total Restricted Cash	574,511
Capital Assets	
Depreciable Capital Assets, Net of Depreciation	15,010,074
Non-depreciable Capital Assets	501,872
Total Capital Assets	15,511,946
Other Assets	
Utility Deposit	525
Total Other Assets	525
Total Noncurrent Assets	16,086,982
Total Assets	20,071,576
Deferred Outflows of Resources	
Deferred Loss on Refunding Bonds	14,395
Deferred Outflow of Resources Related to Pension	346,137
Total Deferred Outflows of Resources	360,532

Liabilities

Current Liabilities

Accounts Payable	32,260
Payroll Liabilities	30,694
Accrued Expenses:	
Taxes	5,712
Interest	102,079
Current Maturities of Long-Term Debt	281,218
Total Current Liabilities	451,963

Noncurrent Liabilities

Compensated Absence	19,430
Customers' Deposits	311,489
Bonds Payable	10,632,731
Aggregate Net Pension Liability	1,421,206
Total Noncurrent Liabilities	12,384,856
Total Liabilities	12,836,819

Net Position

Net Investment in Capital Assets	4,612,392
Restricted - Expendable	1,938,404
Unrestricted	1,044,493
Total Net Position	$ 7,595,289

The accompanying notes are an integral part of these financial statements.

BARKLEY LAKE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating Revenues	
Charges for Services	$ 2,469,449
Miscellaneous Revenue	19,850
Total Operating Revenues	2,489,299
Operating Expenses	
Salaries, Wages and Benefits	1,172,427
Purchased Power	176,262
Chemicals	100,908
Materials and Supplies	333,339
Contract Services	39,404
Transportation Expense	59,673
Insurance	35,746
Miscellaneous	17,500
Taxes	56,767
Depreciation and Amortization	660,383
Total Operating Expenses	2,652,409
Operating Income (Loss)	(163,110)
Non-operating Revenues (Expenses)	
Interest Revenue	11,146
Federal Interest Subsidy	17,023
Gain on Disposal of Asset	1,878
Interest Expense	(390,480)
Total Non-operating Revenues (Expenses)	(360,433)
Capital Contributions	
Contributed Capital	180,967
Total Capital Contributions	180,967
Change in Net Position	(342,576)
Net Position, Beginning of Year	7,937,865
Net Position, End of Year	$ 7,595,289

The accompanying notes are an integral part of these financial statements.

BARKLEY LAKE WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash Flows from Operating Activities	
Received from Customers	$ 2,528,435
Paid to Suppliers for Goods and Services	(839,369)
Paid to Employees	(977,585)
Net Cash Provided (used) by Operating Activities	711,481
Cash Flows from Capital and Related Financing Activities	
Acquisition and Construction of Property, Plant and Equipment	(232,489)
Proceeds from Sale of Property, Plant and Equipment	1,878
Proceeds from Capital Grants	124,191
Proceeds from Federal Interest Subsidy	17,023
Principal Paid on Long-Term Debt	(254,000)
Interest Paid on Debt	(387,873)
Net Cash Provided (used) by Capital and Related Financing Activities	(731,270)
Cash Flows from Investing Activities	
Interest Income	11,146
Net Cash Provided (used) by Investing Activities	11,146
Net Increase (Decrease) in Cash	(8,643)
Cash and Cash Equivalents, Beginning of Year	3,844,381
Cash and Cash Equivalents, End of Year	$ 3,835,738

The accompanying notes are an integral part of these financial statements.

BARKLEY LAKE WATER DISTRICT
STATEMENT OF CASH FLOWS , CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Reconciliation of Operating Activities to Net Cash Flows from Operating Activities

Cash Flows from Operating Activities

Operating Income (Loss)	$ (163,110)
Adjustments - Operating Activities	
Depreciation and Amortization	660,383
Bad Debt	4,588
Pension Contributions	158,565
Adjustment	(6,021)
(Increase) Decrease in	
Accounts Receivable	29,730
Other Receivable	(67,190)
Inventory	46,778
Prepaid Insurance	(709)
Contributions Made Subsequent to Measurement Date	15,150
Increase (Decrease) in	
Accounts Payable	7,372
Accrued Taxes	(750)
Payroll Liabilities	19,432
Compensated Absence	1,695
Tenant Deposits Payable	5,568
Net Cash Provided (Used) by Operating Activities	$ 711,481

Non-Cash Activities

Capital and Related Financing Activities	$ -
Investing Activities	$ -

BARKLEY LAKE WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. Summary of Significant Accounting Policies

a. Activity

The Barkley Lake Water District is a county water district supported by funds derived from the sale of water and is operated by a District Board. The District is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The District is located in Cadiz, Kentucky and primarily serves the Trigg County, Kentucky area.

b. Principles Determining Scope of Reporting Entity

The District's financial report includes only the funds of the District. The District has no oversight responsibility for any other governmental entity and is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board pronouncement. The District's Board members are appointed by the County Judge Executive, a publicly elected official, and they have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

c. Basis of Accounting

The District is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows or resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

The District follows all pronouncements of the Government Accounting Standards Board, and has elected to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989 which do not conflict with GASB pronouncements.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d. Revenue Recognition

Operating revenues are recognized in the period that water is supplied to participants and others. All other revenues are reflected in non-operating income when earned.

1. Summary of Significant Accounting Policies, Continued

e. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimated revenues from unbilled receivables at year-end are reflected in these financial statements

f. Taxes on Income

The Barkley Lake Water District is exempt from paying income taxes under Section 115 of the Internal Revenue Code.

g. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Unrestricted and restricted cash are reflected in total cash and cash equivalents.

h. Accounts Receivable

The direct write-off method was used for recording uncollectible accounts. No allowance for uncollectible accounts was deemed necessary. The District grants credit to customers, substantially all of who are residents of Trigg County. The balance of accounts receivable at December 31, 2016 was $361,695.

i. Inventory

Inventories consist of materials and supplies and are stated at cost which is determined by the first-in, first-out method. Inventory at December 31, 2016 totaled $203,231.

j. Capital Assets

The utility plant is carried at cost. The District maintains a capitalization threshold of $7,500. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income during that period. The cost of maintenance and repairs is charged to income as incurred; significant betterments are capitalized. Contributions from customers for the purpose of purchasing service connections to the utility plant are recorded as contributions when they are received. Depreciation on contributed assets is recorded as an expense in the statement of revenues, expenses and changes in fund net position – proprietary fund.

1. Summary of Significant Accounting Policies, Continued

j. Capital Assets, Continued

Capital assets are depreciated over the following useful lives:

Buildings	10 - 50 Years	Pumping Equipment	5 - 10 Years
Transmission Lines	5 - 50 Years	Meters	5 - 10 Years
Plant Equipment	5 - 10 Years	Office Equipment	5 - 10 Years
Vehicles	5 Years		

k. Use of Restricted / Unrestricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the District's policy is to apply restricted resources first.

l. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s), and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The deferred loss on refunding bonds of $14,395 represents the difference between the reacquisition price and the net carrying amount of the old debt on the 2008 and 2012E refunding. It will be recognized as a component of interest expense over the remaining life of the new debt. Additionally, the District has deferred outflows of resources of $346,137 for the year ended December 31, 2016 that relate to pensions as required by GASB Statement No. 68.

In addition to liabilities, the statement of financial position includes a separate section for *deferred inflows of resources*. This separate financial element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s), and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

m. Compensated Absences

Sick leave is accumulated and will be paid to employees retiring on good terms from the District. Sick leave is forfeitable for employees terminating other than by retirement. Due to the uncertainty involved, no provision for unpaid sick leave has been reflected in the financial statements.

In accordance with the District's policy on vacation pay, the District has accrued a liability for pay, which has been earned but not taken by employees. The District is currently liable for compensated absences of $19,430 at December 31, 2016.

1. Summary of Significant Accounting Policies, Continued

n. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) Non-Hazardous and additions to / deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

o. Proprietary Fund Net Position

Proprietary fund net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is displayed in three components:

Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation and is reduced by any outstanding debt that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted Net Position – consists of net assets with constraints placed on the use by either external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or by state enabling legislation.

Unrestricted Net Position – consists of all other net assets that do not meet the definition of "restricted" or "net investment in capital assets".

p. Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurement and Disclosures*, defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use on pricing the asset or liability, not on assumptions specific to the entity.

Cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, payroll liabilities, and accrued expenses - The carrying amounts reported in the balance sheets for these items are a reasonable estimate of the fair value.

Bonds Payable and Customers' Deposits – The carrying amount approximates fair value.

1. Summary of Significant Accounting Policies, Continued

q. Date of Management's Review

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 11, 2017, the date the financial statements were available to be issued.

2. Bank Accounts

a. Unrestricted Cash

Current revenues are deposited daily in the Revenue Fund, which earns interest at the passbook rate. Disbursements from this fund are made into the following funds as required by the bond covenants and are more fully described in subsequent paragraphs and notes:

(1) Operation and Maintenance Fund
(2) Bond Sinking Fund and Reserve – Restricted Cash
(3) Depreciation Fund – Restricted Cash

On or before the twentieth day of each month, there is to be withdrawn from the Revenue Fund and deposited to the Operation and Maintenance Fund, an amount sufficient to pay the current expenses of operating and maintaining the plant pursuant to the annual budget. This fund is reported on the balance sheet as cash for general use.

b. Restricted Cash

Customers deposits are maintained in a separate account as described in Note 3.

The requirement to maintain separate and special bank accounts was established by the historical bond issues as well as the Bond Series of 2005, 2008, 2010A, 2010B, 2012E and 2014. The bond covenants require additional sums to be deposited in the Bond Sinking Fund and Depreciation Fund as described in Notes 4 and 5.

Construction accounts related to current expansion have been established to account for project funding as described in Note 6.

3. Customers' Deposits Fund

A separate fund has been established by the District and is to be maintained as long as a liability exists to customers for meter deposits held by the District.

At December 31, 2016 the composition of the customer deposit fund is as follows:

Cash in Bank - Checking	$ 284,721
Certificates of Deposit	56,055
Total Customers' Deposit	$ 340,776

3. Customers' Deposits Fund, Continued

At December 31, 2016 the District's liability for customers' deposit was:

Meter Deposits	$	308,482
Interest Payable		3,007
Total Customers' Deposit Liability	$	311,489

4. Bond Sinking Fund and Sinking Fund Reserve

The bond ordinance of 1969 established this fund solely for the purpose of paying the principal and interest on all bonds. The ordinance requires that the monthly amount deposited equals one-sixth of the next succeeding interest installment, one-twelfth of the principal of all bonds maturing on the next November 1st to a maximum of $473,172.

The composition of the Bond Sinking and Reserve Funds is as follows:

Cash in Bank - Sinking Fund	$	17,430
Cash in Bank - System Refunding		138,995
Cash in Bank - Sinking Fund		109,675
Cash in Bank - Regions Refunding		60,534
Cash in Bank - Regions Refunding		51,820
Certificate of Deposit - Sinking Fund		99,646
Total Bond Sinking and Reserve Funds	$	478,100

5. Depreciation Fund

This fund was established by the bond ordinance of 1969. The ordinance requires Barkley Lake Water District to make monthly contributions to this fund after observing the priority of deposits into the Water System Bond and Interest Sinking Fund (Bond Sinking Fund and Reserve). The following bond ordinances require monthly deposits until a maximum amount is accumulated:

Issue	Monthly Deposit	Maximum Requirement
2005	$ 540	$ 64,800
2008C	-	-
2010A	1,755	210,600
2010B	755	90,600
2012E	-	-
2014	295	35,400

5. Depreciation Fund, Continued

The maximum required level of funding all bond resolutions is $401,400. The Water System Revenue Bonds, Series 2008C and 2012E require the maintaining of a Depreciation Fund but do not modify the method or level of funding. As of December 31, 2016, the depreciation cash and certificates of deposit totaled $1,095,454.

As further security for the bond owners and for the benefit of the District, in addition to the monthly transfers required to be made there shall be deposited all proceeds of connection fees collected from potential customers to aid in the financing of the cost of future extensions, additions and improvements to the District, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended. The funds in the Depreciation fund can be expended for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, and the cost of construction additions and improvements to the system.

6. Construction Funds

Expansion projects currently in construction are funded through the construction accounts as detailed below. Initial funding was obtained through the 2008 bond issue.

Cash in Bank - Construction	$	16,580
Cash in Bank - Regions Construction		7,494
Total Construction Funds	$	24,074

7. Deposits and Investments

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Kentucky or its agencies and instrumentalities that have a market value of not less than the principal amount of deposits. The District's deposits, including certificates of deposit, were insured or collateralized as required by State statutes at their highest daily balance during the year.

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure. The District does not have a policy addressing custodial credit risk.

The District is exposed to custodial credit risk at various points throughout the year. The District's deposits not covered by depository insurance are collateralized by pledged securities held by the financial institution.

During the year ended December 31, 2016, the District held balances at two financial institutions. The highest cash day for one institution consisted of a bank balance totaling $3,846,877. That balance was covered by $500,000 Federal Deposit Insurance and the remainder by pledged securities of $4,468,026. The deposits were over collateralized by $1,121,149.

7. Deposits and Investments, Continued

The second institution had a highest cash day balance of $229,523. That balance was covered by $250,000 Federal Deposit Insurance. Additionally, the funds in excess of $250,000 are secured by perfected liens on the Bank's securities in an amount not less than 105% of the total excess deposits. However, no such excess deposits existed during 2016 as the balance never exceeded $250,000.

8. Capital Assets

Capital asset activity for the year ended December 31, 2016:

	Balance January 1, 2016	Additions	Eliminations	Balance December 31, 2016
Depreciable Assets				
Buildings - Water Plant	$ 10,474,080	$ -	$ 1	$ 10,474,079
Buildings - General Plant	4,743	3,755	-	8,498
Pumping Equipment	21,434	-	-	21,434
Transmission Lines	12,105,075	250,384	-	12,355,459
Meters	1,714,059	56,653	-	1,770,712
Plant Equipment	532,486	-	-	532,486
Office Equipment	115,148	5,019	-	120,167
Vehicles	276,543	55,826	41,742	290,627
Total Depreciable Assets	25,243,568	371,637	41,743	25,573,462
Accumulated Depreciation				
Buildings - Water Plant	3,275,391	250,857	-	3,526,248
Buildings - General Plant	1,607	463	-	2,070
Pumping Equipment	21,434	-	-	21,434
Transmission Lines	4,507,143	298,567	-	4,805,710
Meters	1,448,736	59,087	-	1,507,823
Plant Equipment	355,178	26,814	-	381,992
Office Equipment	104,808	5,028	-	109,836
Vehicles	230,449	19,568	41,742	208,275
Total Accumulated Depreciation	9,944,746	660,384	41,742	10,563,388
Net Depreciable Assets	15,298,822	(288,747)	83,485	15,010,074
Non-Depreciable Assets				
Land	117,522	-	-	117,522
Construction in Progress	523,498	111,236	250,384	384,350
Total Non-Depreciable Assets	641,020	111,236	250,384	501,872
Net Capital Assets	$ 15,939,842	$ (177,511)	$ 333,869	$ 15,511,946

Depreciation charged to expense was $660,383 at December 31, 2016.

9. Interest Expense

The District incurred interest costs in 2016 of $390,480. The entire amount has been recognized as a current non-operating expense.

10. Long-term Debt

The original amount of each bond issue, the bond issue dates, interest rates, and maturity dates are summarized below:

Issue	Original Amount	Interest Rates	Maturity Date
2005	$ 1,185,000	4.000% - 6.000%	2044
2008C	3,060,000	2.350% - 4.550%	2037
2010A	4,002,000	3.375%	2051
2010B	1,837,000	3.000%	2049
2012E	1,465,000	2.200% - 3.550%	2033
2014	825,000	2.750%	2055

Changes in the long-term liability accounts during the year are summarized below:

	Balance January 1, 2016	Proceeds	Repayments	Balance December 31, 2016	Current Amount Due
Revenue Bonds 2005	$ 1,049,000	$ -	$ 18,500	$ 1,030,500	$ 19,500
Revenue Bonds 2008C	2,385,000	-	110,000	2,275,000	115,000
Revenue Bonds 2010A	3,909,500	-	49,000	3,860,500	51,000
Revenue Bonds 2010B	1,737,485	-	26,500	1,710,985	27,500
Revenue Bonds 2012E	1,250,000	-	50,000	1,200,000	55,000
Revenue Bonds 2014	825,000	-	-	825,000	12,500
Premium on Bond 2012E	12,682	-	718	11,964	718
Total Bond Obligation	11,168,667	-	254,718	10,913,949	281,218
Compensated Absences	17,735	1,695	-	19,430	-
Customer Deposits	305,921	64,153	58,585	311,489	-
Net Pension Liability	1,155,890	265,316	-	1,421,206	-
	$ 12,648,213	$ 331,164	$ 313,303	$ 12,666,074	$ 281,218

10. Long-term Debt, Continued

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District at December 31, 2016 for debt service (principal and interest) are as follows:

Maturity	Principal	Interest	Total
2017	$ 280,500	$ 385,344	$ 665,844
2018	290,000	375,606	665,606
2019	305,000	365,271	670,271
2020	318,500	354,055	672,555
2021	324,000	342,447	666,447
2022-2026	1,839,500	1,518,848	3,358,348
2027-2031	1,693,500	1,184,180	2,877,680
2032-2036	1,608,500	881,178	2,489,678
2037-2041	1,371,500	614,303	1,985,803
2042-2046	1,435,500	371,033	1,806,533
2047-2051	1,335,485	133,552	1,469,037
2052-2056	100,000	2,792	102,792
	$ 10,901,985	$ 6,528,609	$ 17,430,594

By a resolution of the Commission on August 26, 2014, the District authorized an $825,000 Bond Anticipation note through Kentucky Rural Water Finance Corporation, Interim Finance Program. The Interim financing was for the Cerulean Area Water System Improvements and was secured through a bond issuance in 2015. The District issued $825,000 of revenue bonds (Series 2014). These bonds carry an interest rate of 2.75% and mature between January 1, 2015 and January 1, 2035.

The District issued $4,002,000 of revenue bonds (Series 2010A) for the purpose of financing construction projects. The bonds carry an interest rate of 3.375% and mature between November 1, 2014 and November 1, 2051.

The District completed a current refunding of the 1976 and 1993 bond issues, dated August 29, 2012. The par amount of the 2012E refunding issue is $1,465,000 and it has a total debt service requirement of $2,031,446. The combined remaining total debt service requirement of the 1976 and 1993 bond issues at the date of refunding was $2,271,305, which produces a cash flow savings of $197,120. The net present value of the economic gain on the combined refunding of 1976 and 1993 bond issues is $185,180.

The District issued the Series 2010B bonds through the Build America Bond Program that provides 35% in federal subsidies on the total interest requirements. The interest is paid directly to the District's bond escrow account on a semi-annual basis corresponding with the interest payment dates to the bond holders. Total subsidy payments received at December 31, 2016 were $17,023.

10. Long-term Debt, Continued

All the Revenue Bonds are payable solely from, and secured by, a first pledge of the water revenues. So long as any of the bonds are outstanding and unpaid, the District shall continuously be maintained and operated in good condition. Rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times, to provide for the payment of the operation and maintenance of the water plant, and to maintain the Depreciation and Sinking Funds described in Notes 4 and 5.

If there is any default in the payment of the principal or interest on any of the outstanding bonds, and suit is filed by a holder of said bond, any court having jurisdiction may appoint a receiver to administer the District with the power to charge and collect rates. These collected rates shall be sufficient to provide for the payment of the outstanding bonds, and the operating and maintenance expenses. The income and revenues shall be in conformity with the bond resolution, and the provisions of the applicable laws of Kentucky.

The plant may be sold, or otherwise disposed of only as a whole or substantially as a whole and then only if the proceeds to be realized therefore, together with any monies in the Sinking Fund are sufficient fully to redeem at the then current redemption prices all outstanding bonds and other obligations payable from the net revenues of the District. The bond covenants require that the rates for all utility services rendered by the District must be reasonable.

The District must maintain adequate public liability insurance including fire, windstorm, and hazards covered by a standard extended coverage policy. The net revenues of the District will be equal to 120% of the maximum annual principal, interest and Sinking Fund requirements of all outstanding bonds. Net revenues are defined to be gross revenues less current expenses of the system. Current expenses includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the Bond Fund and the Debt Service Reserve. The bond covenant also requires the District be audited within 130 days of year-end. The requirements that the District maintain a 1.20 times debt coverage ratio was met for the year ended December 31, 2016. The requirement that the District be audited within 130 days of year-end was met.

11. Employee Benefits

General Information about the Pension Plan

Plan Description: CERS is a cost-sharing multiple-employer defined benefit plan established by the provisions of Kentucky Revised Statute Section 78.520 and administered by the Kentucky Retirement System (KRS). Section 61.645 of the Kentucky Revised Statutes grants the authority to establish and amend the benefit terms to the Board of Trustees of KRS. KRS issues a publicly available financial report that can be obtained from http://kyret.ky.gov.

11. Employee Benefits, Continued

Benefits provided: The CERS plan supports three benefit tiers: Tier 1, Tier 2 and Tier 3. Employees under Tier 1 started participation before September 1, 2008. Employees beginning participation between September 1, 2008 and December 31, 2013 are Tier 2 plan members. Tier 3 members began participating on or after January 1, 2014. All Tiers provide for retirement, disability, health insurance, and death benefits to plan members.

Tier 1: A member may retire and receive normal retirement benefits if any of the following have been met:

- Any age with 27 years of service
- Age 65 with 48 months of service
- Money purchase for age 65 with less than 48 months, based on contributions and interest.

Additionally, there are some provisions allowing for early retirement after 25 years of service or after 60 months of service and being 55 years of age. Retirement benefits paid to members are based on the average of the highest 5 fiscal years (must contain at least 48 months of service), multiplied by the applicable benefit factor based on participation entry date, multiplied by the years of service.

Tier 2: A member may retire and receive normal retirement benefits if any of the following have been met:

- Age 57 and age plus earned service years must equal 87
- Age 65 with 5 years of earned service

Additionally, there are some provisions allowing for early retirement after 25 years of service or after 60 years of age with 5 years of service. Retirement benefits paid to members are based on the 5 complete fiscal years immediately preceding retirement (each year must contain 12 months), multiplied by the applicable benefit factor based on service credit, multiplied by the years of service.

Tier 3: A member may retire and receive normal retirement benefits if any of the following have been met:

- Age 57 and age plus earned service years must equal 87
- Age 65 with 5 years of earned service

Tier 3 is a Cash Balance Plan, which is a new benefit tier within the Defined Benefit plan. In the Cash Balance Plan, the employee and employer will make set contributions. The retirement benefit will be based upon the accumulated account balance at the time of retirement.

11. Employee Benefits, Continued

Contributions: Under Tier 1, members contribute 5% of annual compensation and the employer pays the contractually required contribution rate for each year. Under Tier 2, members contribute 6% of annual compensation, 5% to the defined benefit pension and 1% as a health insurance contribution, and the employer pays the contractually required contribution rate for each year. Under Tier 3, members contribute 6% of annual compensation, 5% to the defined benefit pension and 1% as a health insurance contribution, and the employer pays the contractually required contribution rate for each year. The contractually required contribution rate for the year ended December 31, 2016 was 17.06% from January to June and 18.68% from July to December. This percentage includes a 4.64% contribution for insurance provided by the Program and a 12.42% contribution for pensions from January to June and a 4.73% contribution for insurance provided by the Program and a 13.95% contribution for pensions from July to December. Contributions related to the pension plan only, excluding insurance, from the District were $86,839 for the year ended December 31, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the District reported a liability of $1,421,206 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. The District's proportion of the net pension liability was based on the contributions to CERS during the fiscal year ended June 30, 2016. At June 30, 2016, the District's proportion was 0.02887%, an increase of 0.00180% over the prior year.

For the year ended December 31, 2016, the District recognized pension expense of $158,565. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ 133,608
Net difference between expected and actual experience	6,205
Changes in actuarial assumptions	75,288
Changes in proportion and difference between employer contributions and proportionate share of contributions	85,704
District's contributions subsequent to the measurement date	45,332
Total	$ 346,137

11. Employee Benefits, Continued

The total Deferred Outflows recognized in relation to the pension at December 31, 2016 are $346,137. Amounts reported as deferred outflows of resources related to pensions less the District's contributions subsequent to the measurement date will be recognized in pension expense as follows:

Year Ended December 31,	
2017	$ 124,040
2018	86,352
2019	60,762
2020	29,651
2021	-
Total	$ 300,805

Actuarial Assumptions: The total pension liability at December 31, 2016 was determined by an actuarial valuation as of December 31, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. These assumptions contain a margin for mortality improvement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in the future years.

11. Employee Benefits, Continued

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS Proportionate Share of Net Pension Liability to Changes in the Discount Rate: The following table presents the net pension liability of the District, calculated using the discount rate selected, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rates.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's Proportionate Share of Net Pension Liability	$ 1,771,355	$ 1,421,206	$ 1,121,509

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS financial report.

12. Commitments and Contingencies

The District participates in federal and state assisted grant programs for construction of water lines. These programs are subject to review by grantors or their representatives. As of December 31, 2016 there were no material questioned or disallowed costs as a result of grant audits. As construction is completed, amounts due from state grant funds are recognized and are recorded as contributed capital.

13. Commercial Insurance

It is the policy of the District to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, employee health and accident coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

BARKLEY LAKE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEARS ENDED DECEMBER 31

Non-Hazardous	**2016**	**2015**	**2014**
City's Proportion of the Net Pension Liability (Asset)	0.02887%	0.02688%	0.02465%
City's Proportionate Share of the Net Pension Liability (Asset)	$ 1,421,206	$ 1,155,890	$ 799,806
City's Covered-Employee Payroll	$ 650,755	$ 649,895	$ 619,402
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	218.39%	177.86%	129.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.50%	59.97%	66.80%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

BARKLEY LAKE WATER DISTRICT
SCHEDULE OF REQUIRED CONTRIBUTIONS
FOR THE YEARS ENDED DECEMBER 31

Non-Hazardous	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 86,839	$ 81,301	$ 82,112
Contributions in Relation to the Contractually Required Contribution	(86,839)	(81,301)	(82,112)
Contribution Deficiency (Excess)	$ -	$ -	$ -
City's Covered-Employee Payroll	$ 650,755	$ 649,895	$ 619,402
Contributions as a Percentage of Covered-Employee Payroll	13.34%	12.51%	13.26%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

BARKLEY LAKE WATER DISTRICT
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

County Employee Retirement System

Changes of benefits terms – The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions – The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- The Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-200 Combine Mortality Table projected with Scale BB to 2013 (multiplied by 5-% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

BARKLEY LAKE WATER DISTRICT
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2016

Method and assumptions used in calculations of actuarially determined contributions – The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 Years
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.25%
Salary Increase	4.00%, Average, Including Inflation
Investment Rate of Return	7.50%, Net of Pension Plan Investment Expense, Including Inflation

CALHOUN & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
4537 Fort Campbell Boulevard Hopkinsville, Kentucky 42240
Telephone 270.886.0880 Fax 270.886.3716 www.calhouncpa.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Barkley Lake Water District
PO Box 308
Cadiz, Kentucky 42211

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Barkley Lake Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Barkley Lake Water District's basic financial statements, and have issued our report thereon dated May 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Barkley Lake Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Barkley Lake Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Barkley Lake Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Barkley Lake Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Calhoun & Company

Hopkinsville, Kentucky
May 11, 2017